PARAGON REAL ESTATE EQUITY & INVESTMENT TRUST
Form 10-Q
August 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-15409

PARAGON REAL ESTATE EQUITY AND INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

Maryland	**39-6594066**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

10011 Valley Forge Drive

Houston, Texas 77042

(Address of principal executive offices)

(440) 283-6319

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

The number of the registrant s Common Shares outstanding as of August 10, 2012, was 405,096.

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Paragon Real Estate Equity and Investment Trust and Subsidiary

Condensed Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Cash	$ 29,532	$ 11,532
Marketable securities	137,706	174,425
Other assets	3,795	8,113
Total Assets	$ 171,033	$ 194,070
Liabilities and Shareholders Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 5,833	$ 5,376
Total liabilities	5,833	5,376
Commitments and Contingencies		
Shareholders equity:		
Preferred A Shares $0.01 par value, 10,000,000 authorized: 258,236 Class A cumulative convertible shares issued and outstanding, $10.00 per share liquidation preference	2,583	2,583
Preferred C Shares $0.01 par value, 300,000 authorized: 244,444 Class C cumulative convertible shares issued and outstanding, $10.00 per share liquidation preference	2,444	2,444
Common Shares - $0.01 par value, 100,000,000 authorized: 443,226 shares issued and 405,096 outstanding.	4,051	4,051
Additional paid-in capital	28,146,971	28,146,971
Accumulated deficit	(27,182,317)	(27,148,068)
Accumulated other comprehensive income, net unrealized gain (loss) on marketable securities	(7,797)	(18,552)
Treasury stock, at cost, 38,130 shares	(800,735)	(800,735)
Total shareholders equity	165,200	188,694
Total Liabilities and Shareholders Equity	$ 171,033	$ 194,070

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Paragon Real Estate Equity and Investment Trust and Subsidiary

Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited)

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Revenues		
Interest/dividend income	$ 1,796	$ 3,848
Total revenues	1,796	3,848
Expenses		
General and administrative	36,595	36,979
Total expenses	36,595	36,979
Income (loss) from operations	(34,799)	(33,131)
Gain (loss) on sale of marketable securities	550	27,450
Net income (loss) attributable to Common Shareholders	(34,249)	(5,681)
Net income (loss) attributable to Common Shareholders per Common Share: Basic and Diluted	$ (.08)	$ (.01)
Weighted average number of Common Shares outstanding: Basic and Diluted	405,096	405,096
Comprehensive income (loss):		
Net income (loss)	$ (34,249)	$ (5,681)
Other comprehensive income (loss):		
Reclassification adjustment for realized (gain) loss on sale of marketable securities	(550)	(27,450)
Unrealized gain (loss) on marketable securities	11,305	10,173
Comprehensive income (loss)	$ (23,494)	$ (22,958)

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Paragon Real Estate Equity and Investment Trust and Subsidiary

Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited)

	For the three months ended June 30, 2012	For the three months ended June 30, 2011
Revenues		
Interest/dividend income	$ 756	$ 1,798
Total revenues	756	1,798
Expenses		
General and administrative	13,166	13,943
Total expenses	13,166	13,943
Income (loss) from operations	(12,410)	(12,145)
Gain (loss) on sale of marketable securities	2,363	23,565
Net income (loss) attributable to Common Shareholders	(10,047)	11,420
Net income (loss) attributable to Common Shareholders per Common Share: Basic and Diluted	$ (.02)	$ .03
Weighted average number of Common Shares outstanding: Basic and Diluted	405,096	405,096
Comprehensive income (loss):		
Net income (loss)	$ (10,047)	$ 11,420
Other comprehensive income (loss):		
Reclassification adjustment for realized (gain) loss on sale of marketable securities	(2,363)	(23,565)
Unrealized gain (loss) on marketable securities	129	426
Comprehensive income (loss)	$ (12,281)	$ (11,719)

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Paragon Real Estate Equity and Investment Trust and Subsidiary

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ (34,249)	$ (5,681)
Adjustments to reconcile net income (loss) to net cash used in continuing operations:		
(Gain) loss on sale of marketable securities	(550)	(27,450)
Net change in assets and liabilities:		
Other assets	4,318	4,291
Accounts payable and accrued expenses	457	
Net cash from (used in) continuing operations	(30,024)	(28,840)
Cash flows from investing activities:		
Cash used for the purchase of marketable securities		(213,946)
Proceeds from the sale of marketable securities	48,024	225,269
Net cash from (used for) investing activities	48,024	11,323
Cash flows from financing activities:		
Net cash from (used for) financing activities Net cash provided by investing activities		
Net increase (decrease) in cash	18,000	(17,517)
Cash		
Beginning of period	11,532	31,717
End of period	$ 29,532	$ 14,200

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Paragon Real Estate Equity and Investment Trust and Subsidiary

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 Organization

Paragon Real Estate Equity and Investment Trust (the Company, Paragon, we, our, or us) is a real estate company with its primary focus on keeping its public entity available for value-added real estate opportunities, including land development, retail, office, industrial, hotel, other real estate investment and operating companies, and joint venture investments. In addition, in early 2008, the Company began to invest a portion of its available cash in publicly traded shares of real estate companies. Presently, the Company is a corporate shell, current in its SEC filings, that may be used in the future for real estate opportunities or sold to another company.

Note 2 Basis of Presentation

Condensed Consolidated Financial Statement Presentation

We have prepared the consolidated financial statements without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the included disclosures are adequate to make the information presented not misleading. In our opinion, all adjustments (consisting solely of normal recurring items) necessary for a fair presentation of our financial position as of June 30, 2012, the results of our operations for the six month periods ended June 30, 2012 and 2011, for the three month periods ended June 30, 2012 and 2011, and of our cash flows for the six month periods ended June 30, 2012 and 2011 have been included. The results of operations for interim periods are not necessarily indicative of the results for a full year. For further information, refer to our consolidated financial statements and footnotes included in the Annual Report on Form 10-K for the year ended December 31, 2011.

We report our investments using the consolidated method of accounting when we own the majority of the outstanding voting interests and can control operations of a non-active subsidiary company. In the consolidation method, the accounts of this entity are combined with our accounts. All significant intercompany transactions are eliminated in consolidation.

Going Concern

The financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the continued operations as a public company and paying liabilities in the normal course of business. The Company is being maintained as a corporate shell current in its SEC filings. Operations consist only of investments on a temporary basis in publicly traded real estate companies while management and the board evaluate real estate opportunities to put into the Company or decide to sell the entity to a party that needs a public shell.

At June 30, 2012, our cash was approximately $29,500 and our investments in publicly traded real estate companies, which can be liquidated into cash, was approximately $137,700. The increase in cash during the first six months of 2012 was approximately $18,000. We sold investments in marketable securities for a total of $48,000, of which approximately $30,000 was used to pay expenses to keep the Company currently filed as a public company. Expenses, such as salaries and rent, have been eliminated so that the only expenses being incurred are to keep the Company current in its SEC filings, such as accounting, audit, and legal fees. Our ability to continue as a going concern will be dependent upon acquiring assets to generate cash flow because marketable securities are our only revenue generating assets and will not generate enough cash flow to allow us to continue as a going concern.

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There can be no assurance that we will be able to keep the Company currently filed with the SEC, acquire an operating company, or sell the corporate entity. Even if our management is successful in closing a transaction, investors may not value the transaction in the same manner as we did, and investors may not value the transaction as they would value other transactions or alternatives. Failure to obtain external sources of capital and complete a transaction will materially and adversely affect the Company s ability to continue operations.

Correction of Immaterial Errors

The financial statements for the first two quarters of 2011 showed 443,226 common shares issued and outstanding, which included 38,130 shares held in treasury. The total number of common shares outstanding was corrected to show the reduction for the 38,130 common shares held in treasury, or 405,096 common shares outstanding.

The financial statements for the second quarter of 2011 reported comprehensive income of $2,159 for the six months ended June 30, 2011. That amount of comprehensive income included an unrealized gain on marketable securities of $7,840, which should have been a net unrealized loss of $17,277, resulting in a comprehensive loss of $22,958, as shown on the financial statements for the second quarter of 2012 for the six months ended June 30, 2011. The net unrealized loss of $17,277 was comprised of unrealized gains of $10,173 less the reclassification adjustment for recognized gains of $27,450.

Note 3 Marketable Securities

Our investments in marketable securities are available-for-sale as of June 30, 2012, and represent publicly traded common shares of real estate companies.

As of June 30, 2012, our marketable securities had a fair market value of approximately $137,700, including marketable equity securities at market value of approximately $65,800 (based on market prices quoted from the stock exchanges on which the various companies are listed) and a cash insured deposit account of approximately $71,900. We recorded an unrealized gain on marketable securities during the first six months of 2012 of approximately $10,800, net of securities sold, which is included in other comprehensive income.

We recognize gain or loss on the sale of marketable securities based upon the first-in-first-out method. During the six month period ended June 30, 2012, we sold $49,778 of marketable securities having a cost basis of $49,228 and recorded a gain of $550. Additionally, $1,754 of other cash activity in the cash investment account, which is classified as part of marketable securities in the financial statements, was deducted from the proceeds from the sale of marketable securities for total net proceeds of $48,024 for the six month period ended June 30, 2012.

Note 4 Loss Per Share

Net loss per weighted average common share outstanding basic and diluted are computed based on the weighted average number of common shares outstanding for the period. The weighted average number of common shares outstanding for the six months ended June 30, 2012 and June 30, 2011 were 405,096. Common share equivalents of 2,448,892 as of June 30, 2012 and June 30, 2011 include outstanding Class A Convertible Preferred Shares and Class C Convertible Preferred Shares and are not included in net loss per weighted average common share outstanding diluted as they would be anti-dilutive.

Note 5 Fair Value Measurements

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in our Consolidated Balance Sheets, we have elected not to record any other assets or liabilities at fair value, as permitted by Accounting Standards Codification 825. No events occurred during the first six months of 2012 which would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

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The following table provides information on those assets and liabilities measured at fair value on a recurring basis.

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Marketable Securities			
June 30, 2012:			
Cash Insured Deposits	$ 71,935		
REIT Common Stocks	65,771		
Total June 30, 2012	$ 137,706		
December 31, 2011:			
Cash Insured Deposits	$ 70,181		
REIT Common Stocks	98,057		
REIT Mutual Fund	6,187		
Total December 31, 2011	$ 174,425		

The fair value of the marketable securities is based on quoted market prices in an active market.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

Paragon Real Estate Equity and Investment Trust (the Company, Paragon, we, our, or us) is a real estate company with its primary focus on keeping its public entity available for value-added real estate opportunities, including land development, retail, office, industrial, hotel, other real estate investment and operating companies, and joint venture investments. In addition in early 2008, the Company began to invest on a temporary basis a portion of its available cash in publicly traded shares of other real estate companies. The investments are available to be liquidated into cash as needed.

Presently, the Company is a corporate shell, current in its SEC filings, that may be used in the future for real estate opportunities or sold to another company. Because our cash and our investments in publicly traded real estate companies, which can be liquidated into cash, are not sufficient to allow us to continue operations, we have been reviewing other alternatives, including seeking additional investors or selling the corporate entity. There can be no assurance that we will be able to keep the Company currently filed with the SEC, acquire an operating company, or sell the corporate entity. Even if our management is successful in closing a transaction, investors may not value the transaction or the current filing status with the SEC in the same manner as we did, and investors may not value the transaction as they would value other transactions or alternatives. Failure to obtain external sources of capital will materially and adversely affect the Company s ability to continue operations, as well as its liquidity and financial results.

Brief History

Paragon was formed on March 15, 1994 as a Maryland real estate investment trust (REIT). We operated as a traditional REIT by buying, selling, owning and operating commercial and residential properties through December 31, 1999. In 2000, the Company purchased a software technology company, resulting in the Company not meeting the Internal Revenue Code qualifications to be a REIT for federal tax purposes. In 2002, the Company discontinued the operations of the technology segment. We intend to take advantage of our tax loss carryforwards before qualifying to be a REIT again.

Forward-Looking Information

This report on Form 10-Q contains forward-looking statements for the purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934 and may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, and achievements of the Company to be materially different from results, performance or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, there can be no assurance that these expectations will be realized. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Factors that could cause actual results to differ materially from management s current expectations include, but are not limited to, our failure to obtain adequate financing to continue our operations, changes in general economic conditions, changes in real estate conditions, fluctuations in market prices of our investments in publicly traded companies, our inability to liquidate our investments for the value shown in our financial statements, changes in prevailing interest rates, changes in our current filing status with the SEC, the cost or general availability of equity and debt financing, failure to acquire properties in accordance with our value added strategy, unanticipated costs associated with the acquisition and integration of our acquisitions, our ability to obtain adequate insurance for terrorist acts, and potential liability under environmental or other laws. For further information, refer to our consolidated financial statements and footnotes included in the Annual Report on Form 10-K for the year ended December 31, 2011.

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The following is a discussion of our results of operations for the six month periods ended June 30, 2012 and 2011 and financial condition, including:

- Explanation of changes in the results of operations in the Condensed Consolidated Statements of Operations for the six month period ended June 30, 2012 compared to the six month period ended June 30, 2011.

- Explanation of changes in the results of operations in the Condensed Consolidated Statements of Operations for the three month period ended June 30, 2012 compared to the three month period ended June 30, 2011.

- Our critical accounting policies and estimates that require our subjective judgment and are important to the presentation of our financial condition and results of operations.

- Our primary sources and uses of cash for the six month periods ended June 30, 2012 and June 30, 2011, and how we intend to generate cash for long-term capital needs.

- Our current income tax status.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein.

Results of Operations

Comparison of the Six Month Periods Ended June 30, 2012 and 2011

Revenues from Operations

Total revenues decreased approximately $2,000 from approximately $3,800 for the six month period ended June 30, 2011 to approximately $1,800 for the six month period ended June 30, 2012. This decrease was the result of decreased amounts invested in publicly traded real estate companies providing dividends of approximately $1,800 for the six month period ended June 30, 2012, compared to the higher amount of investments providing dividends of approximately $3,800 for the six month period ended June 30, 2011.

Expenses from Operations

Total expenses, comprised mostly of general and administrative expenses, decreased approximately $400 from approximately $37,000 for the six month period ended June 30, 2011 to approximately $36,600 for the six month period ended June 30, 2012. This net decrease is the result of increases in legal expense and expenses to keep the Company current with its SEC filings of approximately $1,300 offset by decreased director and officer liability insurance, decreased accounting expenses and general office expenses of $1,700.

Loss from Operations

As a result of the above, the loss from operations increased approximately $1,700 from approximately $33,100 for the six month period ended June 30, 2011 to approximately $34,800 for the six month period ended June 30, 2012.

Gain/Loss on Sale of Marketable Securities

We sold 2,925 shares of marketable securities of eight companies for $49,778, which had a cost basis of $49,228, and recorded a gain on the sale of marketable securities of $550 in the first six months of 2012.

In the six month period ended June 30, 2011 we sold 7,220 shares of marketable securities of 16 companies with a cost basis of $107,896 for $135,346 and recorded a gain on the sale of marketable securities of $27,450 in the first six months of 2011.

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Net Loss Attributable to Common Shareholders

As a result of the above, the net loss attributable to Common Shareholders increased approximately $28,500 from approximately $5,700 for the six month period ended June 30, 2011 to approximately $34,200 for the six month period ended June 30, 2012.

Comparison of the Three Month Periods Ended June 30, 2012 and 2011

Revenues from Operations

Total revenues decreased approximately $1,000 from approximately $1,800 for the three month period ended June 30, 2011 to approximately $800 for the three month period ended June 30, 2012. This decrease was the result of decreased amounts invested in publicly traded real estate companies providing dividends of approximately $800 for the three month period ended June 30, 2012, compared to the higher amount of investments providing dividends of approximately $1,800 for the three month period ended June 30, 2011.

Expenses from Operations

Total expenses, comprised mostly of general and administrative expenses, decreased approximately $700 from approximately $13,900 for the three month period ended June 30, 2011 to approximately $13,200 for the three month period ended June 30, 2012. This net decrease is the result of increases in legal and state filing fees of approximately $600 offset by decreased director and officer liability insurance and decreased accounting expense of $1,400.

Loss from Operations

As a result of the above, the loss from operations increased approximately $300 from approximately $12,100 for the six month period ended June 30, 2011 to approximately $12,400 for the three month period ended June 30, 2012.

Gain/Loss on Sale of Marketable Securities

In the three month period ended June 30, 2012 we sold 750 shares of marketable securities of four companies for $24,467, which had a cost basis of $22,104, and recorded a gain on the sale of marketable securities of $2,363.

In the three month period ended June 30, 2011 we sold 6,980 shares of marketable securities of 15 companies with a cost basis of $105,861 for $129,426 and recorded a gain on the sale of marketable securities of $23,565 in the second quarter of 2011.

Net Loss Attributable to Common Shareholders

As a result of the above, we had net income attributable to Common Shareholders of approximately $11,400 for the three month period ended June 30, 2011 compared to a net loss attributable to Common Shareholders of approximately $10,000 for the three month period ended June 30, 2012, an increase in net loss of approximately $21,400.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles, which require us to make certain estimates and assumptions. A summary of our significant accounting policies is provided in Note 3 included in our Annual Report on Form 10-K for the year ended December 31, 2011. The following section is a summary of certain aspects of those accounting policies that both require our most subjective judgment and are most important to the presentation of our financial condition and results of operations. It is possible that the use of different estimates or assumptions in making these judgments could result in materially different amounts being reported in our Condensed Consolidated Financial Statements.

Investments in Shares of Publicly Traded Companies

In early 2008, the Company began to invest on a temporary basis a portion of its available cash in publicly traded shares of real estate companies. As of June 30, 2012, we have investments with a historical cost of approximately $73,600 invested in shares of 8 real estate companies and had approximately $71,900 in a money market account with the brokerage firm. The Company records the changes in market value on a quarterly basis as part of shareholders equity until the shares are sold and a gain or loss is recognizable as part of operations. As of June 30, 2012, the market value of the investment in shares of real estate companies of approximately $65,800 was lower than the historical cost of approximately $73,600, resulting in an unrealized loss on marketable securities of approximately $7,800 reflected in shareholders equity. The investments are available to be liquidated into cash as needed.

Valuation Allowance of Deferred Tax Asset

We account for income taxes using the liability method under which deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the period in which the differences are expected to affect taxable income. At June 30, 2012, we have a net operating loss and at December 31, 2011, we had net operating loss caryforwards totaling approximately $2.3 million. While these losses created a deferred tax asset, a valuation allowance was applied against this asset because of the uncertainty of whether we will be able to use these loss carryforwards, which will expire in varying amounts through the year 2031.

We, and our subsidiary, are also subject to certain state and local income, excise and franchise taxes. The provision for state and local taxes has been reflected in general and administrative expense in the consolidated statements of operations and has not been separately stated due to its insignificance.

Liquidity and Capital Resources

Cash provided by operations, equity transactions, and borrowings from affiliates and lending institutions have generally provided the primary sources of liquidity to the Company. Historically, the Company has used these sources to fund operating expenses, satisfy its debt service obligations and fund distributions to shareholders. Presently, we are dependent on our existing cash, which was provided by three independent trustees contributing $500,000 in exchange for Class C Convertible Preferred Shares to maintain the Company as a corporate shell current in its SEC filings so that it may be used in the future for real estate transactions or sold to another company. We have kept the public entity available for value-added real estate opportunities, including land development, retail, office, industrial, hotel, other real estate investment and operating companies, and joint venture investments, as well as reverse merging with another company, selling the corporate entity, and seeking additional investors. In early 2008, the Company began to invest on a temporary basis a portion of its available cash in publicly traded shares of other real estate companies. The investments are available to be liquidated into cash as needed.

To further conserve cash, in 2006 each trustee signed a restricted share agreement with the Company to receive a total of 12,500 restricted Class C Convertible Preferred Shares in lieu of receiving fees in cash for service as a trustee for the two years ending September 29, 2008. The service period ending date and vesting period date for those agreements have been extended to September 29, 2012. Additionally, in 2006, James C. Mastandrea, our President, Chief Executive Officer, and Chairman of the Board of Trustees of the Company, signed a subscription agreement to purchase 44,444 restricted Class C Convertible Preferred Shares. The consideration for the purchase was Mr. Mastandrea s services as an officer of Paragon until September 29, 2008. The service period ending date and vesting period date for this agreement have been extended to September 29, 2012, though the shares were fully amortized by the original date in 2008.

Cash Flows

As of June 30, 2012, our cash was approximately $29,500 and our investments, which can be liquidated into cash, were approximately $137,700. We are dependent on our existing cash resources to meet our liquidity needs because cash from operations is not sufficient to meet our operating requirements.

The increase in cash during the first six months of 2012 was $18,000. We sold investments in marketable securities and transferred the proceeds for a total of $48,000, of which approximately $30,000 was used to pay expenses to keep the Company currently filed as a public company. As a result, our cash balance increased from approximately $11,500 at December 31, 2011 to $29,500 at June 30, 2012.

Future Obligations

We are dependent on our existing cash and investments to meet our liquidity needs and have reduced our day-to-day overhead expenses and material future obligations. We have reduced overhead expenses by not replacing employees who have left, eliminating office space and rent, reducing use of outside consultants, negotiating discounts on prices wherever possible, and delaying or foregoing other expenses.

Long Term Liquidity and Operating Strategies

Our cash of approximately $29,500 and our investments of approximately $137,700, which can be liquidated into cash, are sufficient to meet only the Company s anticipated short-term obligations. Our ability to continue as a going concern will be dependent upon our acquiring assets to generate cash flow for the Company. Since 2006, Paragon has been reviewing value-added real estate opportunities, including land development, retail, office, industrial, hotel, other real estate investment and operating companies, and joint venture investments. Paragon has also been reviewing other alternatives, including selling the corporate entity and seeking additional investors. However, there can be no assurances that the Company will be able to maintain its current filing status or successfully close a future transaction.

Current Tax Status

At June 30, 2012, we have a net operating loss, and at December 31, 2011, we had net operating loss carryforwards totaling approximately $2.3 million. While the losses created a deferred tax asset, a valuation allowance was applied against the asset because of the uncertainty of whether we will be able to use these loss carryforwards, which will expire in varying amounts through the year 2031.

We and our subsidiary are also subject to certain state and local income, excise and franchise taxes. The provision for state and local taxes has been reflected in general and administrative expense in the consolidated statements of operations and has not been separately stated due to its insignificance.

Interest Rates and Inflation

Because Paragon is a corporate shell without debt, we do not have expenses that are affected by interest rates. Interest rates do however affect the amount we can earn on our cash balances.

We were not significantly affected by inflation during the periods presented in this report due primarily to relatively low nationwide inflation rates and Paragon s limited operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have, or are likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2012, the date of this report, James C. Mastandrea, our Chairman of the Board, Chief Executive Officer and President, and John J. Dee, our Chief Financial Officer and Senior Vice President, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as defined in Rule 13a 15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, Mr. Mastandrea and Mr. Dee each concluded that, as of June 30, 2012, our disclosure controls and procedures are effective.

Further, there was no change during the last quarter in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None

ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS
Exhibits

Exhibit Number	Exhibit Description
31.1	Section 302 Certification pursuant to the Sarbanes-Oxley Act of 2002 Chief Executive Officer
31.2	Section 302 Certification pursuant to the Sarbanes-Oxley Act of 2002 Chief Financial Officer
32.1	CEO/CFO Certification under Section 906 of Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* The following financial information of the Registrant for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to Consolidated Financial Statements (unaudited).

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SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PARAGON REAL ESTATE EQUITY AND INVESTMENT TRUST
	By: /s/ James C. Mastandrea
Date: August 10, 2012	James C. Mastandrea
	Chief Executive Officer
	(Principal executive officer)
	PARAGON REAL ESTATE EQUITY AND INVESTMENT TRUST
	By: /s/ John J. Dee
Date: August 10, 2012	John J. Dee
	Chief Financial Officer
	(Principal financial and accounting officer)

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